Introduction

This testimony concerns the economic status--income, wealth, and poverty--among the elderly as we enter the 21st century. The testimony is derived from two recent surveys of the literature (Smeeding 1999; Smeeding and Smith 1998), with some updating based on recent developments in income, wealth, and the cost of health care, and in light of the upcoming debate over the inevitable Social Security and Medicare reform efforts which this country must face early in this century. I begin with a summary of the current and projected incomes and wealth status of the aged. I then turn to the most at-risk group among the elderly (older women). Throughout, and particularly in closing, I discuss the relevance of these trends and projections for Social Security and Medicare reform.

Economic Status of the Aged

The first thing to stress is the theme of economic heterogeneity among the aged. While "averages" (means, medians) are used to describe economic well-being, they are often a poor indicator because of the wide disparity among various subgroups of the aged classified by gender, race, ethnicity, and health status. This diversity often makes it difficult to adequately describe the economic well-being of such different groups as 60-something retired couples and 90-year-old single women by any one dimension, much less well-being more generally.

That is, the economic condition of the aged is a story of both change and variance. While many Americans are enjoying very comfortable retirement years, many others age under the significant threat of economic deprivation. There have been dramatic improvements in the average economic well-being of older Americans over the last several decades, but many still subsist near or below the poverty line. Using both income and wealth as measures of economic well-being, one can draw a picture of old age filled with both the bright lights of economic security and the dark tones of economic distress. Moreover, if one goes beyond descriptions of current older Americans to consider the likely economic well-being of the next century's older population, one finds even greater expected diversity.

Income and Poverty

Poverty rates among the old is an example of this diversity. Over the past four decades the economic status of the aged has improved considerably and their poverty rates have been cut by two-thirds, from 35 percent to 10 percent. Still minorities and older women living alone have poverty rates in excess of 20 to 25 percent. Moreover, a much larger fraction of the aged than of the non-aged live right above poverty (between 100 and 125 percent of the poverty line), and are therefore living on less than $10,000 of cash income per year. And, if we were to follow a National Academy of Sciences recommendation and subtract out-of-pocket health care expenses from the incomes of the elderly in determining their poverty status, the fraction counted as poor would be 14 percent, not 10 percent.

The average economic status of the aged also differs sharply depending on marital status, minority status, and age. In fact, disparities in economic in economic well-being are greater among the elderly than among the non-elderly. The three-legged stool of Social Security, income from financial assets, and pensions works well only among the top 20 percent of the aged; the bottom 20 percent rely on Social Security for over 80 percent of their income. This dependence is particularly large for older women, minorities, and those in poor health. And for the most part the level of Social Security benefits alone for these groups is too low to escape poverty.

Over the next half-century, Social Security will contribute a decreasing share of the income needed for a secure retirement. The demographic and fiscal crunch facing the system rules out large, across-the-board increases in benefits. As Social Security transfers decline in relative importance, personal savings, job-related pensions and earned income from working longer will assume a larger rule in guaranteeing economic security for older Americans. But these other sources of economic well-being are considerably less secure and reliable than is Social Security among the very old, particularly among older women.

Wealth

Income is not the only measure of well-being among the old; wealth also matters, and here we find even more variance. Inequality in wealth holdings is much greater among the aged than is income inequality. Many older households have extremely modest levels of accumulated savings, especially financial assets. For example, the *median*, i.e., the "average" older (aged 70 and older) household has less than $6,500 in financial assets, enough to get by for less than half a year. A measure of well-being that takes account of this would show greater inequality than one based on income alone. Hence, income inequality *understates* overall economic inequality among the aged. Wealth inequality among the elderly is largely the consequence of past savings decisions. In addition to income, savings are influenced by past health shocks, a desire to leave bequests to one's heirs, and disincentives to private savings provided by asset-tested transfer programs, like SSI.

Many features of Social Security (OASI) have changed little since they were designed in the 1930s and 1940s. Back then, life expectancy was much shorter, couples stayed married and wives, most of whom were also mothers, did not work outside the home. While society has changed, Social Security's basic distributional scheme has remained the same, and this has produced results that are not easy to understand or defend at the turn of the century. They will be even harder to defend in the future, particularly as we face a sea of change in the economic well-being of older women, the most at-risk group among older Social Security recipients.

Older Women

The Social Security program was designed over 60 years ago for a world in which women married, stayed home and raised children, and were widowed at a relatively young age; where fathers worked in industrial settings; and where both men and women had much shorter life expectancies at older ages than those of succeeding generations. Back in 1935 the founders of Social Security did not anticipate that women would become the major beneficiaries of the program. Increasingly, women rely on Social Security as the major source of their economic security at older ages, much more so than do men. Therefore, women are the group with the most to gain or lose from reform of the Social Security system and modification of its benefit formulae.

Future women beneficiaries will be different than today's beneficiaries, since as women's lives are changing rapidly in many ways. More women work outside the home today, and about one-half of all current marriages will end in divorce. Increasing numbers of children grow up in a single-parent family, typically that of the mother. The higher future benefits expected for married women with their own careers in the labor market need to be balanced against the potentially bleak economic situation in old age for a large and growing number of divorced and never married women.

Older Women Today

Benefit adequacy and economic security for women in old age should be our primary concerns. Social Security is the only guaranteed, inflation-protected, lifetime benefit for older people. More than two in three persons aged 75 and over are women, and almost three in four persons aged 85 and older are women (Social Security Administration 1998). Since the population aged 85 and over is the fastest growing group among the old, their economic and health care needs are of particular importance For instance, at least one member of the average couple who retires today and begins receiving Social Security benefits will live an average of 25 years (Social Security Administration 1998). Women at age 65 are expected to live an average 3.3 years longer than men, and because most women marry older men, women are three times more likely to be widowed in old age than are men (Anderson 1998). This produces an expectation of over 15 years that the average older female survivor spends as a widow (Schoen and Weinick 1993).

One might ask, how do these older women fare? In fact, three of every four poor elderly people are women. Poverty rates for the elderly are highest among divorced, never married, and widowed women--all about 20 percent--compared to a poverty rate of below 5 percent for married women. And older United States women have poverty rates 1.5 to 20 times higher than those found in other rich western nations in the Organization for Economic Cooperation and Development (OECD) nations (Smeeding 1998; Burkhauser and Smeeding 1994), even before accounting for their higher out-of-pocket health care costs.

The importance of Social Security to older women cannot be overestimated. If there were no Social Security, and barring any behavioral change, more than one-half of all older women would be poor today (Social Security Administration 1998). Women are far less likely than men to qualify for private pensions (30 percent vs. 48 percent in 1994). And even when women do receive their own pensions, they qualify for benefits that are only about one-half the median benefit received by men. Finally, about one-third of husbands still do not elect joint and survivor options for their private pensions upon retirement, despite federal legislation to encourage that choice.

On average, unmarried women receive 72 percent of their incomes from Social Security. The percentage of income that comes from Social Security rises with age, rises among older women living alone, and rises as overall income declines. For instance, widows aged 80 to 84 with below-median incomes rely on Social Security for more than 80 percent of their income (Macunovich 1999).

Finally, while poverty rates for older women are high, Social Security keeps many more older women out of poverty. In 1998, Social Security reduced the poverty rate among older women from 53 to 14 percent (among men the rate was reduced from 41 percent to 8 percent). For elderly widows, as well as for women aged 85 and over, Social Security plays an even larger role, reducing the poverty rate from more than 60 percent to about 20 percent (Porter, Larin, and Primus 1999).

Older Women Tomorrow

While more women will have greater lifetime earnings in the future, they will be increasingly likely to be unmarried and will be at greater risk, due to higher rates of divorce and greater periods of single parenthood, than were previous generations of elders. For black women, the numbers will be much higher due to higher divorce and never married rates. More women, both black and white, will choose to have families outside of marriage, and the number of women who are predicted never to marry will also increase (Iams and Butrica 1999). These changes will lessen the level of social and familial support, as well as economic support, that we can expect in the future.

The net outcome of these changes in earnings, pensions, and marital status is very difficult to predict with any degree of certainly. However, the Social Security Administration's Office of Policy has developed a model to predict the distribution of retirement income for future Social Security beneficiaries. Figure 1 presents some results based on this model (Iams and Butrica 1999; Smith and Toder 1999; Butrica, Cohen, and Iams 1999).

The broad picture in Figure 1 shows that the poverty rate for older women receiving Social Security benefits in 2020 will be exactly the same as it was in 1991, 12 percent. In fact, the official overall poverty rate for older women in 1999 in 11.8 percent (U.S. Bureau of the Census, 2000, Table 2). While poverty rates will be a bit lower for married, divorced, and widowed women in 2020, they will stay high among divorced women (22 percent) and widowed women (15 percent). Poverty among never-married women, many of whom will be never-married mothers in 2020, will increase from 23 to 35 percent. Finally, poverty among married women, which was only 4 percent in 1991, is expected to decline to 3 percent in 2020. These results are driven by the fact that the fraction of older women who are divorced and never married will rise from 10 percent in 1991 to 25 percent in 2020 (see bottom of Figure 1). These results suggest that many of tomorrow's female Social Security recipients will be no better off than today's, and that poverty and insecurity will be as much a problem of older women in 2020 as in 1991 or 1999.

Despite the "good news" of greater labor force participation of women, which will increase the number of women with pensions and long earnings careers at higher earnings levels, there is also the "bad news" that divorce, never marrying, and the poor earnings futures of low-skilled women will yield poverty outcomes that mirror those we find today. Therefore, Social Security reformers should be wary of reform elements that put benefit adequacy or insurance protection at risk, and should pay special attention to provisions for widows, the never-married, and women who are divorced. Lower income older women will need Social Security just as much or more in the future as they do today.

Economic and social change will have both positive and negative effects on the economic security of tomorrow's women in old age. One can hope that women's earnings, Social Security benefits, and private pensions will grow to mirror those of men, but we must realize that tomorrow's women will experience many of the same insecurities and risks due to their social roles and career work and family patterns as do those of today (Iams and Sandell 1998). If we as a society want to reduce poverty among older women, we must take precautions now to provide even better levels of benefit adequacy and economic security through the reformed Social Security system. In particular, we should better protect those individual women who will lose more than is gained overall from these ongoing and tumultuous social and economic changes.

Conclusions

In summary, the legs of the traditional retirement income stool are increasingly unequal. Social Security (OASI) will continue to play a very important role in the incomes of many current and future elderly at the same time that a large number of well-to-do Americans will find that Social Security is becoming an increasingly smaller source of their economic well-being in old age. The growth of two-earner households, the rise in women's careers, and uncertain factors such as the recent growth in the return to retirement investments will ensure this change, even if there is no change in Social Security. But there will be a change; in fact there must be one, to preserve the system's integrity. And the sooner the change is made the easier will be the adjustment costs and the adjustments themselves.

The upcoming reform of the pay-as-you-go OASI system may involve different investment regimes for the trust fund or for individual participants in the system. But even if we follow some sort of privatization strategy, there still must be benefit reductions or tax increases to cover projected future revenue shortfalls. Benefit reductions to remedy the deficit in the pay-as-you-go OASI system and to maintain current benefits should not compromise the program's ability to provide a decent non-poverty level standard of living to the low-income elderly. In particular, given that three out of every four poor aged persons are women, these changes should, if anything, be designed to strengthen the anti-poverty effect of the system on older women, particularly surviving spouses, divorcees, and never-married older women.

We will have a new President and a new Congress in a few weeks. Many Congressmen and Governor George W. Bush are wedded to some form of privatization of the Social Security system. Such a change introduces the possibility of higher returns on Social Security investments, but also the risk of poorer outcomes due to the volatility of the stock market. But, as stated by *all* serious analysts, there must also be some pain in higher taxes and/or lower benefits as the system pays off its unfunded liabilities. However, there is little talk among the President's advisors of strengthening benefits among those most at risk due to divorce, widowhood, or being a never-married woman.

Social Security reform must insure against old age poverty and poor health status by means of a more solid and generous "lower tier" to the Social Security and old age income security system. At the same time, we need to further strengthen incentives to save and keep on saving, particularly among lower- and middle-income households, if we want them to enjoy a solid three-legged stool of pensions, savings, and OASI in old age. I for one, might be willing to assume the risks of an expanded and privatized Social Security system, if we were, at the same time, to guarantee that no elderly woman (or man) would ever live in poverty or spend herself into poverty for health care needs. There are a large number of ways to make such a guarantee (e.g., Smeeding 1999). While these changes are not costless, the gains to the system estimated by privatization advocates should be more than enough to pay for these changes and at the same time modestly increase the well-being of low income older women. I strongly urge Congress to make just such a bargain for the well-being of all of our wives, mothers, grandmothers, and daughters--the most important beneficiaries of the Social Security system and the ones most threatened by future Social Security Reform.

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